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Voluntary Public

Date: 2/10/2014

GAIN Report Number:

Peru

Post: Lima

The U.S.-Peru TPA Five Years of Spectacular Growth

Report Categories:

Trade Policy Monitoring

Approved By:

Emiko Purdy

Prepared By:

Gaspar E. Nolte and Mariano J. Beillard

Report Highlights:

The U.S.-Peru Trade Promotion Agreement (PTPA) has been instrumental in boosting bi-lateral trade in food and agricultural products between the United States and Peru. Five years after entering into force (February 1, 2009), trade between the two partners is at record highs. From 2009 to 2013, bilateral food and agricultural products trade jumped from \$1.46 billion to \$2.37 billion – a nearly 63 percent increase. From 2009 to 2013, U.S. exports of food and agricultural products to Peru jumped from \$530.3 million to \$851.7 million – nearly a 61 percent increase. Exports of U.S. consumer-oriented products at a record \$212 million now account for 25 percent of U.S. food exports to Peru. FAS Lima foresees exports of U.S.-origin consumer-oriented products to Peru becoming as important as U.S. bulk commodity exports in the next few years. FAS Lima foresees exports reaching the \$1 billion mark possibly within three years.

General Information:

The U.S.-Peru Trade Promotion Agreement (PTPA) has been instrumental in boosting bi-lateral trade in food and agricultural products between the United States and Peru. Five years after entering into force (February 1, 2009), trade between the two partners is at record highs. FAS Lima finds bilateral trade in food and agricultural products shooting upwards since the PTPA (using 2008 and 2009 base line years) entered into force.

- **From 2009 to 2013, bilateral food and agricultural products trade jumped from \$1.4604 billion to \$2.3745 billion – a 62.6 percent increase:**
- From 2009 to 2013, U.S. exports of food and agricultural products to Peru jumped from \$530.3 million to \$851.7 million – a 60.6 percent increase.
- From 2009 to 2013, U.S. imports of Peruvian food and agricultural products jumped from \$930.1 million to \$1.5228 billion (record high since at least CY 1970) – a 63.7 percent increase.
- **From 2008 to 2013, bilateral food and agricultural products trade jumped from \$1.3766 billion to \$2.3745 billion – a 72.5 percent increase:**
- From 2008 to 2013, U.S. exports of food and agricultural products to Peru jumped from \$432.7 million to \$851.7 million – a 96.8 percent increase.
- From 2008 to 2013, U.S. imports of Peruvian food and agricultural products jumped from \$943.9 million to \$1.5228 billion (record high since at least CY 1970) – a 61.3 percent increase.

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Exports of U.S. food and agricultural products to Peru reached a record high of \$903 million in 2011, driven by record shipments of U.S. wheat, cotton, and animal fats worth \$559.3 million. Since the PTPA, U.S. exports to Peru have grown with a compound annual growth rate (CAGR) of over 12.5 percent during the 2009-13 timeframe. U.S. exports in 2013 are already up nearly 31 percent compared to 2012; FAS Lima foresees exports reaching the \$1 billion mark possibly within three years, in tandem with growing demand for U.S. consumer-oriented food products.

The United States disputes with Argentina market share primacy in the Peruvian market. In particular, U.S. exports of corn, coarse grains, soybeans, and cotton are facing challenges. Peru's unilateral elimination of import tariffs on most commodities eliminated some of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement. Argentina and Brazil, offering more competitive prices, are benefitting from the measure. U.S. corn quality concerns, as well as lower cotton prices dampened demand for U.S. bulk commodities in 2012; these account for about 55 percent of U.S. agricultural exports to Peru. Exports of U.S. bulk commodities are however up nearly 90 percent in 2013; driven by U.S. wheat shipments of \$206 million, which are up almost 192 percent compared to 2012. While Argentine exports to Peru are on a downward trend over time, U.S. exports are once again trending upwards.

FAS Lima finds that the PTPA has been instrumental in changing the U.S. food and agricultural product export mix to Peru. The Peruvian economy's decade-long strong growth combined with the PTPA, has stimulated demand for U.S. consumer-oriented products. For example, U.S. bulk commodity shipments to Peru in 2008 accounted for roughly 63 percent (\$274 million) of the total export value; with high-value, consumer-oriented products only accounting for 17 percent (\$72 million). Although demand for

bulk commodities today has grown to almost \$413 million, up nearly 51 percent compared to the pre-PTPA 2008 level, consumer-oriented products at a record \$212 million now account for 25 percent of U.S. food exports to Peru.

FAS Lima foresees exports of U.S. high-value, consumer-oriented products to Peru becoming as important as U.S. bulk commodity exports. We believe that increased exports of consumer-oriented products will reduce reliance on bulk commodities, the latter of which are subject to international agricultural commodities' price swings.

The only U.S.-origin bulk commodity that presently benefits from the PTPA is corn, which is not subject to the Peruvian Price Ban (PPB) system. However, the recent drop in international agricultural commodity prices has triggered the activation of the PPB system; granting tariff-rate quota (TRQ) U.S.-origin commodities a distinct advantage versus regional suppliers Argentina, Brazil, and Paraguay. The variable levy, ensuring that corn enters Peru at minimum threshold price (floor price) is set at \$55 per metric ton (MT). Peru cannot fully assess the variable levy against U.S.-origin corn under the PPB system due to its PTPA commitments.

Within the high-value, consumer-oriented products sector, U.S. beef and beef products along with pork and pork products are PTPA success stories. Prior to the PTPA, U.S. beef and pork exports to Peru in 2008 were a mere \$6.4 million and \$700 thousand respectively. Today, U.S. beef exports to Peru are at a record high of \$33 million, while pork exports are just shy of the \$6 million mark. Thanks to the PTPA, and the preferential market access it has provided, U.S. beef and pork exports to Peru are registering nearly 51 percent and 71 percent CAGR during the 2009-13 timeframe. FAS Lima estimates that the Peruvian market for imported U.S.-origin beef and pork and products thereof potentially could reach \$100 million within the next five years.

Similarly other high-value, consumer-oriented products that have evidenced very strong growth thanks to the PTPA include dairy products, which at \$61 million in 2013 are up 200 percent compared to 2008. Likewise poultry meat at \$13 million and prepared foods at \$25 million are up respectively 3,000 and 110 percent compared to pre-PTPA 2008 levels.

FAS Lima finds that the PTPA along with Peru's economic growth, combined with sound economic policies and fiscal responsibility, have increasingly made the country a favorable destination for U.S. food and agricultural products. We believe that in order to capitalize on our PTPA's gains of the past five years, U.S. exporters need to continue to invest in product marketing and in country promotional activities. FAS Lima strongly recommends that U.S. exporters become familiar with Peruvians' tastes, product preferences, and commercial practices, as well as avail themselves of the assistance that this office can provide.

The Peru Trade Promotion Agreement has also benefitted Peruvian farmers and exporters. U.S. imports of Peruvian food and agricultural products have jumped from \$930.1 million in 2009 to record \$1.5 billion in 2013, representing an increase of almost 64 percent. Peruvian agricultural exports to the United States are led by fresh vegetables (at a record high of \$327 million in 2013, up from \$184 million in 2008), processed fruit and vegetables (\$269 million in 2013, up from \$204 million in 2008), and fresh fruit (at a record high of \$201.5 million, up from \$68 million in 2008). Coffee, with U.S. imports of \$173 million in 2013, continues to be an important export commodity for Peru. However,

falling international prices along with sanitary concerns is hampering export growth. FAS Lima foresees Peru increasingly supplying the U.S. market in years to come with grapes, cacao, quinoa, and blueberries.